

## CONCEPTUALISING THE POTENTIAL OF DIVERSITY: HOW DIVERSE TEAMS CREATE INNOVATION AND GAIN A COMPETITIVE EDGE

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### ABSTRACT

*This paper seeks to present a literature review on diversity and inclusion inside organisations regarding innovation. Evidence suggests that diverse teams can tap into various viewpoints to generate significant competitive advantages by enhancing strategic customer relations and market orientation. Unique teams may have challenges in decision-making, but management practices positively influence facts, creativity, and quality work. This paper briefly reviews diversity and inclusion, whereby diversity merely brings in a mix of different people, inclusion effectively uses these diverse groups correctly. The article concludes by pointing out that it is not only the extension of a hand of fellowship to minorities but also the call for them to grasp the chance and positively impact the achievement scores of the organisations.*

### INTRODUCTION

The pace of modern business requires identified results that contribute advantage and competitive advantage to companies. Indeed, the much-fused concept of competitive advantage is a powerful framework for assessing where diversity management can be understood and applied in business. There are many categories of competitive advantage. They may cover aptitudes or not, cut across the entire business field, or include financial, investment, stakeholder, organisational, marketing and management,

market segments, and positioning. Regardless of the category, competitive advantage always refers to achievers and people pursuing innovative breakthrough performances above and beyond market close locations. These premium results give value over an extended time.

Creative and innovative outputs are vital to any economy and are known by many names, breakthroughs, inventions, leaps forward, alliances, surprises, etc. Innovative companies prioritise having a blend of technical skills and imagination. Obtaining and retaining such outputs is a modern-day challenge involving unleashing marginalised employees' potential. The goal is to harness individuals' diverse talents and qualities for optimum results and value.

Various factors, including functional diversity, organisational identity realms, and external environmental dynamism, alongside control variables such as team goal orientation and task interdependence, may influence the performance of project teams comprising diverse professionals. Additionally, the performance of the business and the success of new product development cannot be overlooked. Stahl and Maznevski (2021) posit that team cultural diversity positively impacts product performance by facilitating a dialogue process, which aids in addressing coexistence problems and enhancing communication, mutual understanding, and adaptation. Furthermore, when organisational cultural diversity bolsters team collaboration, entrepreneurial project teams place greater emphasis on Enhanced Learning Systems (ELS). Multinational companies exhibit broader innovation and likely more tremendous success due to their diverse operations (Corritore et al., 2019). The effect of team cultural diversity on performance may hinge on the level of team interaction and the team's capability to effectively merge different subgroups into productive collaboration, as this promotes the integration of diverse team knowledge

derived from varying social characteristics and experiences of team members (Abarca et al., 2021). Open-minded leadership styles are more conducive to innovation, agility, and success, enabling companies to capitalise on these differences.

Innovation and entrepreneurship highlight the significant role of team diversity in fostering corporate innovation, agility, and swift growth, particularly in multicultural and cross-cultural settings (Stahl & Maznevski, 2021). Diversity orientation enhances organisational, innovation, and product performance and improves communication effectiveness, relational satisfaction, and the dynamic between team diversity and team performance. These aspects influence project turnover, project staff turnover intentions, and new management capabilities. However, contrasting observations have been reported by Frese and colleagues regarding project collaborations in China, leading to a contentious debate.

From both real-life experiences and scholarly research, it is evident that team members with diverse professional identities, skills, experiences, demographics, and cultural backgrounds are more receptive to different thoughts and behaviours. This openness facilitates better social adaptation, innovation capacity, implementation ability, and decision-making capability, ultimately maintaining a competitive edge.

Naseer et al. (2023) demonstrate the existence of the diversity contradiction and the attraction similarity effect, suggesting that these divergent phenomena may be capable of explanation through knowledge of the decision-making process. It presents a contingency theory that suggests the diversity-performance relationship is mediated by variables such as organisational culture. Urionabarretxea et al. (2021) introduce a model of interpersonal conflict in multidisciplinary work teams that examines

the relationship between diversity and performance. Their model develops insights regarding the influence of functional and demographic diversity, mediated by organisational culture, leadership, and conflict, on work-group decision quality and performance (Urionabarrenetxea et al., 2021).

Integrating demographic factors of diversity with task, team, and organisational characteristics is necessary for examining diversity-performance relationships, allowing for effective interventions and demonstrable impacts. Previous researchers have identified the effects of various dimensions of diversity and parity on team behaviour and performance but have not always clarified why these relationships exist (Chaudhry et al., 2021).

Many argue that effectively managing diversity can lead to competitive organisational performance. Different approaches to diversity management can impact the bottom line. Yet, the specific interventions needed to maximise the benefits of certain dimensions of diversity are poorly understood, leaving the relationship between diversity dimensions and performance largely unexplored. In modern organisations, diversity is a reality with geographically dispersed teams and dynamic membership. However, little is known about how diversity affects collaboration. Questions remain: Does diversity in teams lead to higher innovation and performance? What team conditions are necessary for diverse team members to be influential? Are these conditions stylistic, demographic, or both? (Inegbedion et al., 2020).

## **LITERATURE REVIEW**

Constructs from disciplines to provide suitable conceptual frameworks for consideration. The need persists for interdisciplinary literature and related discussion across underrepresented interlocutors. Communication requires more than jargon-based rhetoric. Consensus on measuring constructs for robust testing

is necessary. Directions for research in management call for leveraging diversity, not just inclusion. Workforce diversity is grounded in economic and human resource considerations. Legal and regulatory perspectives address the equitable treatment of employees. Micro and macro levels influence motivation and competitive advantage. Discussions on diversity in literature are inadequate. Understanding potential impacts is still in the nascent stages of development (Urbanová et al., 2020; Yadav & Lenka, 2020).

Empirical evidence has been inconsistent, possibly due to conceptual and methodological reasons (Hongal & Kinange, 2020). Recent research on organisational diversity suggests that a diverse workplace can positively affect processes, employee commitment, and productivity. However, there is evidence that workforce diversity can create barriers and hinder job performance. Paying attention to diversity could benefit organisations with increased satisfaction and innovation. Earlier studies on affirmative action influenced the understanding of diversity, but recent findings often contradict them. Collective intelligence of a group, which is influenced by the diversity of its members is a significant predictor of the team's ability to perform innovative tasks. Past research shows that diverse teams have more potential to innovate than homogenous teams (Inegbedion et al., 2020; Chaudhry et al., 2021).

Workforce diversity has internal strengths, including capacity for change and improved strategic decision-making. Diverse representation brings alternative viewpoints and enhances group decision-making. It leads to quicker, higher-quality decisions and more innovative problem-solving (Ramamurthy, 2019; Köchling & Wehner, 2020). Recent studies provide the theoretical foundation for studying the effects of workforce diversity. Diversity of thought allows firms to adapt quickly. Recommendations include building a complex cognitive system, providing inclusive

structures, leading from the bottom, working towards a shared vision, and prioritising essential matters.

### **Diversity**

Women makeup over 50% of the population, possess more college degrees, and represent 50% of the workforce. Yet, they earn less than men and often bear the financial burden of college and student loan debt. Many women are the sole providers for their households. Gender-biased conflicts should not hinder professional development and equity. Efforts have been made to address gender inequities, but attitudes can still evolve. An individual's value, accomplishment, or success should not be determined by their sexual orientation, sexuality, or gender identity (Quintana-García & Benavides-Velasco, 2016; Sahama et al., 2021). Diverse teams consist of individuals from different backgrounds, bringing innovation and growth potential. This part focuses on identity and demographic diversity, including gender, age, race, ethnicity, and sexual orientation. We also address the diversity of thought separately. Diversity, Equity and Inclusion (DEI) are crucial for cultural change at work, requiring ongoing commitment rather than a checklist (Wiig & O'Hara, 2021).

Fostering a culture of continuous learning and adaptation by age diversity brings a mix of experience and clear perceptions. Studies have shown that these teams can address the needs of a broad customer base and lead innovation through varied viewpoints (Xu, 2019).

The workplace with varied cultural insights is enriched by racial and ethnic diversity. Research by Olcoñ et al. (2019) highlights that groups with diverse racial and ethnic backgrounds are more likely to generate creative solutions and succeed with superior results to homogenous groups.

### **RESEARCH OBJECTIVE**

To examine conceptualization on the potential workforce diversity on innovation and competitive advantage in modern organizations, focusing on the influence of team heterogeneity across demographic, functional, and cultural dimensions on team performance, creativity, and decision-making quality.

### **CONCEPT DERIVED FOR WORKFORCE DIVERSITY AND ORGANIZATIONAL PERFORMANCE**

1. The Independent Variable is Workforce Diversity. The dimensions of diversity is measured using demographic diversity (gender, age, ethnicity, nationality), functional diversity (professional background, skills, expertise) and cultural diversity (values, beliefs, norms).
2. The Dependent Variables
  - a. Innovation measured by creative output, number of patents, new product development success, etc.
  - b. Competitive Advantage measured by market positioning, financial performance, and long-term sustainability.
  - c. Team Performance measured by efficiency, quality of decision-making, and adaptability in dynamic environments.
3. The Mediating Variables comprise of the following
  - a. Team Collaboration and Integration that facilitates knowledge-sharing, mutual understanding, and cohesive work processes.
  - b. Organizational Culture refers to the culture that values inclusion, equity, and openness to different perspectives can strengthen the positive effects of diversity.
  - c. Enhanced Learning Systems (ELS) provides resources and processes that support continuous learning, fostering innovative outcomes.

4. The Moderating Variables derived from the literature review is as follows:
  - a. Leadership Style refers to open-minded and inclusive leadership can amplify the positive impacts of diversity on team dynamics.
  - b. Environmental Dynamism stresses on the external environment's stability or unpredictability can influence how well diversity translates into competitive advantage.
  - c. Team Goal Orientation and Task Interdependence refers to the teams with aligned goals and high task interdependence may benefit more from diversity by encouraging collaboration and shared accountability.
5. The Control Variables chosen would be
  - a. Organizational Size and Structure that differences in size and hierarchy may affect how diversity is managed and its impact on innovation.
  - b. Industry Type includes industries with high innovation demands (e.g., tech, R&D) might experience stronger diversity effects compared to more traditional industries.

### **Framework Flow**

Workforce Diversity (Demographic, Functional, Cultural) → Mediated by Team Collaboration, Organizational Culture, Enhanced Learning Systems (ELS) → Moderated by Leadership Style, Environmental Dynamism, Team Goal Orientation → LeadstoInnovation, Competitive Advantage, and Team Performance

### **SIGNIFICANCE OF THE STUDY**

On June 29, 2007, the Securities and Exchange Commission (SEC) voted to allow the New York Stock Exchange (NYSE) to make permanent a rule requiring listed companies to disclose on an annual basis information about their boards of directors, director independence, and member diversity. Results from our models of the effect of racial diversity on the value created

of market share during the commercialisation process show the proportion of African-American and Hispanic team members to have significant, positive effects, which is consistent with our proposition that racial diversity can enhance other organisational capabilities and increase chances for competitive advantage. While we cannot rule out the possibility that the relationship between the racial diversity of teams and the value created by awarded patents could be U-shaped, we explored other possibilities (Quintana-García and Benavides-Velasco, 2016).

While we may easily link diversity and innovation, the translation of those innovative contributions into a competitive advantage has yet to be demonstrated. Findings about the influence of diversity on corporate culture and performance suggest that attention must be paid to critical intervening or moderating variables that can enhance or diminish the potential positive outcomes to firm performance. Quintana-García and Benavides-Velasco (2016) explore the relationships between the composition of racial diversity of teams and the market value of awarded patents in one of the first studies in this area. Their results support the claim of the value of racial diversity for innovation and, ultimately, competitive advantage but also suggest that these relationships are neither automatic nor unrestricted.

Does competition change diversity's relationship with innovation and competitive advantage? High diversity in teams might lessen the impact of diversity on innovation. The effect of representation on perceived texture is also essential (Usher & Barak, 2020). Research should investigate the impact of diversity representation on innovation in small and more significant teams. Incentives and process tweaks can mitigate the negative consequences of more extensive diversity commitments (Usher & Barak, 2020).

We asked which scenario is more likely



to generate the direct effect: HR policies attracting a more substantial pool of applicants or a talent management process utilising the knowledge found in a diverse workforce. HR policies and high-value information are factors of an innovation-based approach. The study sheds light on team innovation and competitive advantage (Funmilayo Aribidesi Ajayi & Chioma Ann Udeh, 2024). Motivation and a diverse workforce differentiate innovative firms. Heterogeneous team members bring personal knowledge and experiences, stimulating creativity. Diversity causes team innovation. We questioned if there is more than a direct effect of team heterogeneity on team innovation (Funmilayo Aribidesi Ajayi & Chioma Ann Udeh, 2024).

### CONCLUSION

The relationship between visible diversity and individual contribution in teams shows consistent evidence. Greater diversity of education encourages engagement and substantial contribution from team members. This challenges the social loafer problem often mentioned in the literature. However, the impact of visible diversity on team performance is mixed, while diversity has a positive effect on individuals. The paper then focuses on the project context and the variables analysed. The research findings suggest that visible diversity can positively contribute to team performance but can also make communication and interaction more challenging. Overall, there is partial evidence that more diverse teams are innovative and of higher quality. Multinational corporations benefit from diverse national backgrounds among employees. Law firms and professional service organisations with cultural expertise have a competitive advantage. Diversity is essential for creativity and morale. Research shows promising benefits. Our study contributes to this field. Diverse teams foster innovation with varied perspectives. Homogeneous teams may struggle with creative problem-solving.

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